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Report Highlights:
In MY2000 Israel's citrus industry experienced its worst season since World War II. Production fell to a low of 700,000 mt of which 100,000 mt was left on the trees. In two years growers uprooted some 5,000 ha of citrus. Another 6,000 ha may be abandoned in the coming year. The GOI has cut citrus irrigation quotas by 25 percent or more and raised water prices by close to 20 percent.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

MY2000 (September, 2000 – August 2001) is considered to be Israel's worst citrus season since the Second World War. A combination of deteriorating citrus prices in new sheqel terms, internal political unrest, the continuation of a debilitating drought, and rising water prices throughout the economy all contributed to a catastrophic year for producers. Estimated total citrus production in MY2000 is expected to reach approximately 705 tmt, twelve percent lower than in 1999 and the same as in MY1998, considered to be an exceptionally poor year. The estimated planted area appears to have shrunk by some 5,000 hectares since MY1998.

Although the market price for Israeli citrus was 8 – 10 percent higher in local European currencies than in the previous season, the weakening of the European currencies relative to the dollar and the Israeli sheqel, mainly during the second half of the export season, caused exporters' CIF revenues to drop by 20 percent.

Continuing low profitability combined with aging orchards and increasing water shortages are expected to lead to the uprooting of some 6,000 ha of citrus orchards at the end of the 2000-2001 season. Total planted area is expected top drop to between 16 and 17 thousand hectares compared to 32,500 ha in the mid-eighties. The industry appears headed for a volume below which the quantity of fruit can't support the necessary export and processing services.

Winter 2000/01 was the third successive winter with lower than average rainfall. The government cut irrigation quotas in half, raised water prices. Retention of the current planted area is possible only by substitution of recycled water for the very scarce fresh water presently in use but due to uncertainty as to the future of the industry, growers hesitate to invest in replanting, regrafting and installation of new irrigation systems.

Lack of citrus concentrates - mainly grapefruit - in international markets has raised prices and increased the processing industry's ability to pay for grapefruit. The profitability of other citrus will be affected only marginally by improved processor prices. Sweeties continue to prove problematic in export markets.
END OF SUMMARY

Table 1. Summary of Citrus Production and Disposition: MY 1997 – MY 2000
Thousands of Metric Tons

Species	MarketYear	Total Production	Total Exports	Delivery to Processors	Fresh Consumption
Oranges	1997	394	142	142	110
	1998	267	103	59	105
	1999	327	89	142	96
	2000	241	56	110	75
Grapefruit	1997	303	107	184	12
	1998	283	103	160	20
	1999	259	98	141	20
	2000	205	48	145	12
Easy Peelers	1997	118	47	41	30
	1998	82	29	18	35
	1999	120	35	45	40
	2000	85	35	30	20
Lemons	1997	17	1	1	15
	1998	14	0	1	13
	1999	18	1	2	15
	2000	12	0	2	10
Sweetie	1997	46	27	18	1
	1998	45	20	24	1
	1999	65	23	39	3
	2000	50	24	23	3
Other	1997	12	10	0	2
	1998	10	9	0	1
	1999	11	8	0	3
	2000	10	9	0	1
Total Citrus	1997	890	334	386	170
	1998	702	264	263	175
	1999	800	254	369	177
	2000	603	172	310	121
	2001*	690	200	340	150

Source: 1997,1998,1999: CPMBI annual publications. 2000 – based on CMBI weekly summary and MOA estimates.

* Forecast by Citrus Grower Organization and CMBI.

Note: Estimated yield in MY2000 was 700,000 mt but some 100,000 mt was left unpicked on the trees because of a lack of harvest labor (see below).

Production

More than 700,000 (tmt) of citrus were produced in MY2000, 12.5 percent less than the 800 tmt yield in MY1999. In the mid-eighties, at the peak of its success, Israel's citrus sector produced some 1.5 million metric tons of fruit and exported between 600 and 800 thousand tons annually. Of the total MY2000 yield, only 603 tmt were harvested due to a lack of pickers. In previous years Palestinian workers had done most of the picking; this season political instability prevented them from traveling from the Palestinian Authority to the groves in Israel and citrus prices paid by exporters were not high enough to enable the growers to pay the higher wages demanded by Israeli agricultural laborers.

Production conditions in the spring and summer of 2000, the period over which the trees flower and the 2001 crop begins to develop on the trees, were favorable, producing normal long term average yields. The average yield, however, of the aged groves of Shamouti and Valencia oranges is only about 40 mt/ha, insufficient to produce a reasonable return to growers' capital and labor. In addition, all of Israel's orange varieties have been losing markets to those of Spain and Morocco and general prospects for citrus growers are bleek.

Irrigation quotas and water prices

Water, always the limiting production factor in Israel continued to be critical to the economic viability of the sector. Israel's continuing drought has exacerbated the national water crisis. Agricultural irrigation quotas were cut administratively by 50 percent on average and the Water Commissioner has announced his intention to deepen the cuts in 2001. Similarly water prices, having been raised by 19 percent in 2000, can be expected to rise an additional 20 percent in 2001 as the government continues its efforts to reach a level equivalent to the marginal cost of delivering new quantities. As part of its water conservation efforts the government has offered compensation to those growers who stop irrigating their fields and orchards. The compensation depends on the crop and is calculated on the basis of each cubic meter foregone.

Planted area

Total planted area is estimated at approximately 22,500 hectares, of which 17,500 are located in central Israel. Of this, not more than 2,000 hectares are young, non- bearing groves: mainly Sweetie, lemons and easy peelers. More than 60 percent of the bearing groves are over thirty five years old, mainly Shamouti and Valencia oranges and grapefruit. According to the citrus industry, under the influence of the irrigation quota cuts, the declining terms of trade for exports and the government offer to buy up irrigation quotas, the coming summer will see the uprooting of another 6,000 hectares. This will reduce the total area planted to citrus to between 16,000 and 17,000 hectares. Due to expanded demand by the processors for yellow grapefruit, Ministry of Agriculture (MOA) and the Citrus Marketing Board of Israel (CMBI) sources think that the area planted to white grapefruit has reached an equilibrium level and uprooting of this variety will stop, at least for the coming two or three years. An exception might be the older marginal and low-yielding grapefruit groves. Thus, most of the uprooted trees can be expected to be the aging Shamouti and Valencia oranges, found mainly in the family farm sector. Anything under 20,000 ha – 50,000 acres - is close to the critical mass below which it will be very difficult to maintain all supporting sectoral service systems such as packing houses, transportation, processing plants, etc. Once the critical production threshold is reached deterioration of the industry can be expected to accelerate. Key industry sources claim that if profitability does not improve dramatically and new markets are not developed, for example in the Arabian Gulf, the planted area will continue to fall until it reaches a size adequate only to satisfy domestic demand. In an effort to prevent or delay such developments, in 2000 the MOA and CMBI planned a replanting campaign to replace 10,000 hectares of old, unproductive orchards, mainly in central Israel, with better commercial varieties to be irrigated with recycled effluent. The majority of the new plantings is planned for the south, in the Negev and Besor regions.

R&D

Despite the efforts of many years, Israel's R&D has failed to supply the group of profitable new commercial varieties which would enable exporters to retain their competitive position in the European market. The only varieties demonstrating any degree of commercial success are two easy peelers: Orr and Morr which are just beginning to appear on the market. There are many varieties in research, but it is a matter of years before they will become commercial.

Profitability

MY2000 is considered the worst commercial season for Israel's citrus industry since the Second World War. The reasons are as follows:

a. Despite the fact that prices in local currencies in Europe were higher than in former year by 8 to 10 percent, their weakening relative to the dollar and the sheqel in MY2000 lowered export revenues (measured in dollars) by twenty percent. This represents a sixty percent drop in farm gate income because the declining revenues are not at all offset by falling production and marketing costs. It is assumed that the weighted average farm gate price of exported fruit in new sheqel terms will end up averaging 35 percent less than in MY1999. Higher revenues from the local fresh market and from the processors, mainly for grapefruit, partly compensate for the export losses. Total income per hectare is expected to end up 10 to 15 percent lower than in MY1999.
b. Fifteen percent of the fruit remained unpicked due to the lack of pickers. In many cases, the delay in picking damaged fruit quality and increased the percentage of culls. The effect was not equal over all varieties.
c. Irrigation costs represent one-third of total production cost. During MY2000 water affected profitability in two main ways: water charges were raised by 19 percent (and are due to grow by another 20 percent in the course of 2001), and water usage was above average in many regions of the country due to lower than

average precipitation.

Consumption

Average consumption in Israel's domestic fresh market is estimated by the CMBI at approximately 170 tmt. This includes 20 tmt, which traditionally are sold in the Palestinian Authority (PA). In MY 2000, a shortage was felt in the citrus market because of the 100,000 mt which remained on the trees. This occurred despite the fact that the Palestinian Authority totally banned shipments of Israeli citrus in the wake of the hostilities existing between the two entities. Total domestic consumption of fresh citrus in MY2000 is estimated at 120 tmt. Consumption by the processing industry generally amounts to some 40 percent of annual production. The shortage of fruit also affected the processing plants which received 310 tmt, compared to more than 370 tmt in previous years. The shortage of raw material, mainly yellow grapefruit, caused the processors to offer higher prices than in recent seasons. Their share of annual production grew to more than fifty percent. In many groves the high factory price for grapefruit combined with high yields helped it to become the most profitable species in Israel's citrus basket.

Trade

Spain, Israel's strongest competitor, lacked citrus in MY2000. The market in Europe was open to Israeli fruit at better prices than in the previous year. Thus, there were reasons to expect improved export results. Actually, exports in MY2000 are forecast to end up 20 percent lower than in the previous year and almost 30 percent below MY1998.

Reasons for the reduced exports include:

a. The harvest was 100 tmt below that of the previous year;
b. The opening of the export season was delayed by 3 to 4 weeks, due to the weakness of European currencies vis a vis the Israeli sheqel. The farm gate price offered by exporters was lower than the picking cost.
c. Lack of Palestinian workers, and refusal of the government to approve the importation of other foreign workers disrupted the regular picking schedule.

Western Europe's market share, which for many years represented 70 percent of total exports, is steadily deteriorating and has reached 52 percent. The rest is exported to Japan, Eastern and Central Europe and the Former Soviet Union (FSU). Shifting from the Western European markets is in accordance with the Israeli exporters' strategy to avoid increasing competition from Spain and Morocco by developing new markets, especially in the Far and Middle East. In MY 2000, however, for the first time Israeli exporters faced new competition from Spain in their recently developed markets in Eastern and Central Europe. Spain, despite this year's lower citrus yields, succeeded in shipping significant quantities to these markets at the expense of Israel's market share.

Israel's continuing efforts to expand Sweetie exports to Japan show no results. Japan's economic crisis, the importers' restriction of specifications strictly to large sizes, and the low prices relative to previous years all restricted the market to approximately one-third of the quantity of available exportable fruit. In MY2000 Sweetie sales to Japan were only slightly higher than in MY1999.

Efforts to expand Sweetie sales to the South Korean market appear to have been unsuccessful. Israaeli sources place the blame on non-tariff barriers raised by the Korean authorities. Exports of yellow Sweeties to Europe increased in

MY2000 by one-third but remained relatively insignificant, growing from 300 to 400 thousand boxes. Hopes for new markets in the Arab countries in the region - mainly in the Gulf States which are known as citrus consumers – have not materialized due to the deteriorating political situation in the region.

Table 2. Fresh Citrus Exports by Main Groups – September 1999 –End of March 2000

Thousand of Boxes

				% change	% change
Variety	**MY 2000**	**MY1999**	**MY1998**	**2000/1999**	**2000/1998**
Oranges:					
Shamouti	2,809	3,272	4,891	-14	-43
Valencia	148	100	604	48	-75
Navels, Trovita	104	197	251	-47	-59
Total Oranges	3,061	3,569	5,746	-14	-47
Grapefruit					
White	755	1,422	1,596	-47	-53
Red Blush	0	35	46	-100	-131
Sun Rise	2,369	3,413	3,429	-30	-31
Ray Ruby	40	33	46	21	-13
Sweetie	1,672	1,649	1,426	1	17
Total Grapefruit	4,836	6,552	6,543	-26	-26
Easy Peelers	2,103	2,557	2,219	-18	-5
Lemons	0	41	29	-100	-70
Others	789	714	700	11	13
Total	**10,789**	**13,433**	**15,237**	**-20**	**-29**

Source: Citrus Marketing board of Israel.

Table 3. Citrus Exports to the European Union – October 2000 –End of March 2001
Metric Tons

Variety	Total Exports	Of which: to EU	% of Variety 00	% of Variety 99
Oranges	46,215	35,694	78	74
Grapefruit				
White	11,325	5,052	45	48
Red	36,132	17,664	49	42
Sweetie	24,245	6,788	28	25
Total	71,702	29,504	41	44
Easy Peelers	29,443	16,512	56	61
Lemons	0	0	-	55
Others	9,080	0	-	58
Total	156,440	81,710	52	54

Source: Citrus Marketing Board of Israel.

Policy

Recently, various Israeli political and economic leaders have declared the citrus industry to be a public enemy. They lay a large portion of the blame for the water crisis at its door, declaring it to be a "water guzzler" which also uses valuable land and produces a crop which is not competitive or economically viable. This change in attitude affects the quality of the government's response to the industry's needs. Whether due to weather and natural disasters or economic conditions, the citrus industry on the whole has suffered losses through all but one or two of the years of the last decade. Reluctantly the government agreed to provide bridging financing for investments in the industry which would lead to substitution of treated effluent for valuable fresh water while allowing growers to replant or regraft their aging orchards. The main plan involved provision of government assistance in financing the planting over five years of 10,000 hectares of commercial citrus varieties. Due to their uncertainty regarding the future of the industry, only a few growers grasped the opportunity. Recently, because of budgetary problems, and due to the low grower response, the Ministry of Finance cancelled a NS 50 million budget, which had been earmarked for citrus planting.

Other policy measures: During MY2000, the government compensated the growers for losses incurred in MY1999, to the tune of $3 for each exported metric ton. Under pressure from the agricultural establishment, the government is now considering exchange rate insurance against future unfavorable shifts in rates of exchange for the exporters. In the interim, it appears that growers will receive some government compensation for losses that were caused by exchange rate problems at the beginning of the most recent export season.

Marketing

The leading figures in Israel's citrus industry are beginning to realize that marketing is one of their main problems. Unlike the water problem or low yields, which are endogenous variables for the economy, marketing is an external factor over many of whose components the Israeli exporter has little or no control. Some of these include the increasing supplies and strong competition from Spain and Morocco. Spain's new interest in Eastern European markets is stoked by the EU export subsidies on sales outside of the EU. Morocco too is a key competitor.

Recent developments in the purchasing methods of the large food chains throughout Europe present new challenges to Israeli exporters. The three main shippers apparantly are unable to meet the chains' demands for large quantities and a full range of citrus varieties. Israel's exports lack significant elements, including sufficient quantities of competitive easy peelers. Growers hope this problem will be solved in 3 to 5 years, when the "ORR" and "MORR" varieties reach full production. The Shamouti orange, typical to Israel and still popular in the English market, suffers from low yields and from noxanes which damage the fruit but appear only some two weeks after picking. The main Israeli exporting companies "Mehadrin", "Tnuport" and "Agrexco", the managers of which were all at one time or another involved in the monopsonistic marketing activities of the CMBI prior to its reorganization in the early nineties and the privatization of exports, are in the early stages of reorganizing and coordinating their exports. This has been practised for a number of years with Sweetie exports to Japan and with grapefruit shipments to Italy. Negotiations have begun between "Mehadrin" and "Tnuport", who together export close to two-thirds of all of Israel's citrus, to establish a common marketing company. The negotiations between the two companies are aimed to establish the common company before the coming export season (MY2001). If their actions prove successful, "Agrexco" may be expected to join them in the following year. The intended merger may be opposed by the GOI antitrust office and by the producers who may fear having to face an organized monopsony. In fact, since the privatization of exports early in the previous decade, the exporters have behaved in many ways as a cartel in their dealings with the growers. In order to try and prevent such a situation, the Citrus Growers Organization (CGO) is preparing a plan for the establishment of a new marketing entity that will be similar in its functions to the CMBI. The CGO intends to hire an international company with extensive experience in citrus marketing that can offer the growers an alternative to the established export companies One of the main demands from such a marketing company will be increased grower involvement in marketing decisions. The plan appears to have preliminary support from the growers but may come up against strong resistance from the existing companies and the CMBI itself.

Sweetie Marketing

Sweeties were Israel's Great Green Hope for conquering the Japanese market. Export potential of this sweet green fruit is close to three million boxes but only 1.6 million were exported to Japan in MY2000. Sweetie plantings had been encouraged by the Israeli government in the hope that Japan could absorb almost all exportable production. A recent market survey indicates that maximum annual exports to Japan, maintaining "reasonable" prices, are in the vicinity of 800 to 900 thousand boxes. At present, not all Sweetie plantings have achieved full bearing. When they do, annual production is forecast at about 100 tmt or more than 6 million boxes. Even in the best of times exports to Japan did not exceed 2.3 million boxes. Industry sources indicate that if the planted area is not reduced most of the Sweetie will find their way to the processing industry despite current processor refusal to accept significant quantities.

PS&D Table
Country: Israel
Commodity: Fresh Sweeties

	1998		1999		2000	
	Old	New	Old	New	Old	New
Market Year Begin	10/1998		10/1999		10/2000	
Area Planted	2150	2150	2200	2200	2150	2150
Area Harvested	1500	1500	1510	1700	1750	1700
Bearing Trees						
Non-Bearing Trees						
TOTAL No. of Trees						
Production	44	45	60	65	68	50
Imports	0	0	0	0	0	0
TOTAL SUPPLY	44	45	60	65	68	50
Exports	20	20	25	23	26	24
Domestic Consumption	1	1	3	3	3	3
Processing	23	24	32	39	39	23
TOTAL DISTRIBUTION	44	45	60	65	68	50

Note: The above figures are included in the fresh grapefruit PS&D table, including deliveries to processors

Processed Citrus

No changes from preceeding reports.

Trade Data

There are no additional detailed trade figures beyond those presented in the previous annual citrus report.

PS&D Table Country: Israel Commodity: Fresh Tangerine Juice						
	1998		1999		2000	
	Old	New	Old	New	Old	New
Market Year Begin	10/1998		10/1999		10/2000	
To Processors	18	18	55	40	45	30

Beginning Stocks	1	1	0	0	1	2
Production	12	11	36	24	29	17
Imports	15	15	15	20	20	25
TOTAL SUPPLY	28	27	51	44	50	44
Exports	19	18	38	32	35	30
Domestic Consumption	9	9	12	10	13	12
Ending Stocks	0	0	1	2	2	2
TOTAL DISTRIBUTION	28	27	51	44	50	44

PSD Table						
Country:	Israel					
Commodity:	Oranges					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Planted	10500	10500	9400	9400	8000	7000
Area Harvested	9900	9900	9150	9150	7960	6000
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0

Production	268	268	327	327	300	241
Imports	10	5	12	10	5	0
TOTAL SUPPLY	278	273	339	337	305	241
Exports	103	103	89	89	90	56
Fresh Dom. Consumption	115	105	108	96	105	75
Processing	60	65	142	152	110	110
TOTAL DISTRIBUTION	278	273	339	337	305	241

PSD Table						
Country:					Degrees Brix	
Commodity: Orange Juice						
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin						
Deliv. To Processors	60	65	142	152	110	110
Beginning Stocks	5	5	0	0	1	1
Production	31	31	74	74	56	56
Imports	19	19	15	15	30	30
TOTAL SUPPLY	55	55	89	89	87	87
Exports	44	44	62	62	60	60
Domestic Consumption	11	11	26	26	26	26
Ending Stocks	0	0	1	1	1	1
TOTAL DISTRIBUTION	55	55	89	89	87	87

PSD Table						
Country:	Israel					
Commodity:	Fresh Grapefruit					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Planted	7500	7500	7500	7000	7400	6500
Area Harvested	7200	7200	7200	6800	7050	6400

Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	327	328	319	324	328	255
Imports	5	0	5	0	5	0
TOTAL SUPPLY	332	328	324	324	333	255
Exports	123	123	123	121	116	72
Fresh Dom. Consumption	26	21	28	23	28	15
Processing	183	184	173	180	189	168
TOTAL DISTRIBUTION	332	328	324	324	333	255

Note: This table includes the Sweetie PS&D

PSD Table						
Country:	Israel				Degrees Brix - Single Strength	
Commodity:	Grapefruit Juice					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Deliv. To Processors	183	184	173	180	189	168
Beginning Stocks	1	1	1	2	1	0
Production	81	83	73	73	77	74
Imports	25	25	32	40	30	40
TOTAL SUPPLY	107	109	106	115	108	114
Exports	92	94	90	105	90	100
Domestic Consumption	14	13	14	10	17	14
Ending Stocks	1	2	1	0	1	0
TOTAL DISTRIBUTION	107	109	106	115	108	114
PSD Table						
Country:	Israel					
Commodity:	Fresh Tangerines					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000

Area Planted	5700	5700	5640	5640	5932	5932
Area Harvested	4100	4100	4640	4400	5132	5132
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	82	82	120	120	140	85
Imports	0	0	0	0	0	0
TOTAL SUPPLY	82	82	120	120	140	85
Exports	29	29	35	35	50	35
Fresh Dom. Consumption	35	35	40	45	45	20
Processing	18	18	45	40	45	30
TOTAL DISTRIBUTION	82	82	120	120	140	85

PSD Table						
Country:	Israel					
Commodity:	Fresh Lemons					
		1998		1999		2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Planted	1100	1100	1200	1200	1515	1150
Area Harvested	1050	1050	1150	1150	1420	1100
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	14	14	18	18	20	12
Imports	0	0	0	0	0	0
TOTAL SUPPLY	14	14	18	18	20	12
Exports	0	0	1	1	2	0
Fresh Dom. Consumption	13	13	15	15	16	10
Processing	1	1	2	2	2	2
TOTAL DISTRIBUTION	14	14	18	18	20	12

PSD Table						
Country:	Israel					
Commodity:	Fresh Citrus,Other					
		1998		1999		2000

	Old	New	Old	New	Old	New
Market Year Begin		10/1998		10/1999		10/2000
Area Planted	1700	1700	1650	1700	1700	1720
Area Harvested	1270	1270	1250	1300	1300	1520
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	10	10	11	11	15	10
Imports	0	0	0	0	0	0
TOTAL SUPPLY	10	10	11	11	15	10
Exports	9	9	8	8	10	8
Fresh Dom. Consumption	1	1	3	3	5	1
Processing	0	0	0	0	0	1
TOTAL DISTRIBUTION	10	10	11	11	15	10